

**GRATTAN ACADEMY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2007**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Grattan Academy  
Belding, Michigan

October 25, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grattan Academy (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grattan Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Grattan Academy as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Grattan Academy  
Belding, Michigan

October 25, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of Grattan Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 23, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grattan Academy's basic financial statements. The additional information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Grattan Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

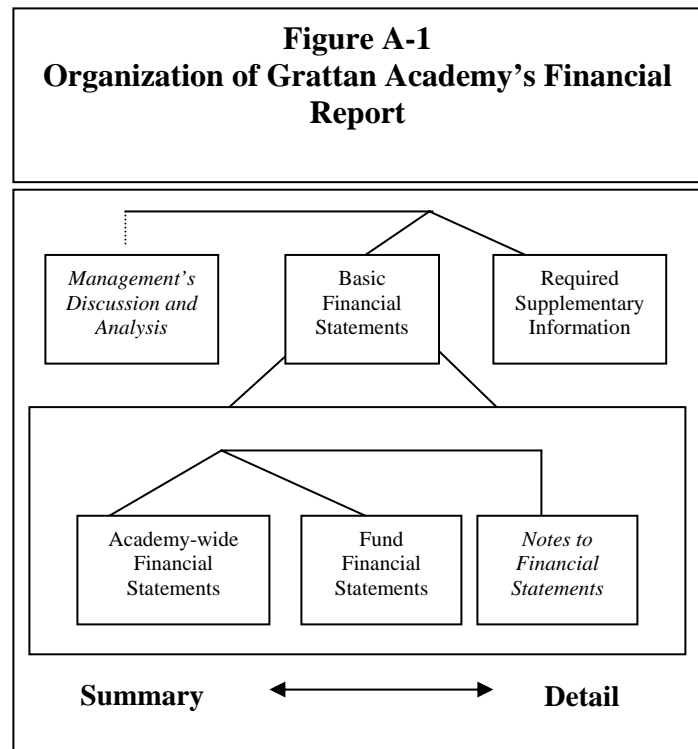
### Financial highlights

- The Academy had a decrease in the fund balance in the general fund of \$135,248 compared to a budgeted figure of \$197,631. This gives the Academy a general fund balance deficit of \$32,247.
- The Academy retired \$24,050 in long term debt during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2: Major Features of the Academy-wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

#### **Academy-wide statements**

The academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debt).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets (deficit) - the Academy's combined net assets (deficit) of (\$491,001) increased by \$227,244 during the year. See Figures A-3 and A-4.

The total revenues increased by 2% to \$1,594,476. Total general revenues were nearly identical in 2007. State aid foundation allowance included in revenue from state sources accounts for 90% of the Academy's revenue.

The total cost of instruction was primarily unchanged at \$713,727. Total support service increased by 7% to \$710,405 primarily due to additional costs incurred for general administration, school administration and business services.

<b>Figure A-3</b>		
<b>Grattan Academy's Net Assets</b>		
	2007	2006
Current assets	\$ 338,053	\$ 354,632
Capital assets, net	3,177,837	3,277,522
Other noncurrent assets	763,918	736,481
Total assets	4,279,808	4,368,635
Current liabilities	542,917	378,598
Long-term liabilities	4,227,892	4,253,794
Total liabilities	4,770,809	4,632,392
Net assets (deficit):		
Invested in capital assets, net of related debt	(743,536)	(618,467)
Restricted for debt service	338,682	330,787
Unrestricted	(86,147)	23,923
Total net assets (deficit)	\$ (491,001)	\$ (263,757)

<b>Figure A-4</b>		
<b>Changes in Grattan Academy's Net Assets</b>		
	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 105,922	\$ 68,124
Charges for service	5,146	6,382
General revenues:		
State aid - unrestricted	1,439,334	1,407,175
Other local sources	44,074	76,138
Total general revenues	1,483,408	1,483,313
Total revenues	1,594,476	1,557,819
Expenses:		
Instruction	713,727	711,913
Support services	710,405	666,152
Community services	4,212	15,922
Interest on long-term debt	293,691	269,863
Unallocated depreciation	99,685	110,393
Total expenses	1,821,720	1,774,243
Change in net assets	\$ (227,244)	\$ (216,424)



## Financial analysis of the Academy's funds

The Academy's general fund balance decreased by \$135,248 to a deficit of (\$32,247). Principal and interest payments on long-term debt of \$55,621 and transfers to the debt service of \$267,424 were made from the general fund. The capital projects fund reimbursed the general fund \$44,492 for building improvement expenditures.

### General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated expenditures would exceed revenues and other financing sources or uses by \$197,631, the actual results for the year showed expenditures over revenues of \$135,248.

Actual revenues were \$21,159 more than budgeted, due primarily to additional special education monies received from the ISD.

The actual expenditures were \$19,156 under budget, due primarily to lower school administration services and building operation costs.

### Capital asset and debt administration

#### *Capital assets*

As of the year ended June 30, 2007, the Academy had invested \$3,177,837 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$99,685 from the beginning of the year. Total depreciation expense for the year was \$99,685. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>Grattan Academy's Capital Assets</b>				
	<b>2007</b>			<b>2006 Net</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	
Land	\$ 366,500		\$ 366,500	\$ 366,500
Building and improvements	2,765,576	288,253	2,477,323	2,550,218
Land improvements	87,000	13,050	73,950	77,430
Furniture and fixtures	283,624	54,364	229,260	243,691
Office equipment	78,438	47,634	30,804	39,683
Total	<u>\$ 3,581,138</u>	<u>\$ 403,301</u>	<u>\$ 3,177,837</u>	<u>\$ 3,277,522</u>

### **Long-term debt**

The Academy paid \$24,050 in principal and approximately \$280,000 in interest on long-term debt during the year. More detailed information about long-term debt can be found in Note 6 to the financial statements.

### **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- Changes in the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts, the Academy has budgeted a reduction in foundation allowance of \$60 per pupil.
- The Academy has adopted a budget for 2008 showing an increase to fund balance of \$124,169 eliminating the current deficit.

### **Contacting the Academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

**GRATTAN ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 28,213
Due from other governmental units	294,268
Prepaid expense	15,572
<b>TOTAL CURRENT ASSETS</b>	<b>338,053</b>
<b>NONCURRENT ASSETS:</b>	
Investments - debt service	387,699
Investments - capital projects	104,648
Deferred charges, net of amortization	271,571
Capital assets	3,581,138
Less accumulated depreciation	(403,301)
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,941,755</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,279,808</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 265,571
Accrued interest	102,917
Accrued salaries and related items	99,132
Note payable	49,395
Current portion of obligation under capital lease	2,864
Current portion of long-term obligations	23,038
<b>TOTAL CURRENT LIABILITIES</b>	<b>542,917</b>
<b>NONCURRENT LIABILITIES:</b>	
Obligation under capital lease	6,083
Long-term obligations	4,221,809
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>4,227,892</b>
<b>TOTAL LIABILITIES</b>	<b>4,770,809</b>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(743,536)
Restricted for debt service	338,682
Unrestricted	(86,147)
<b>TOTAL NET DEFICIT</b>	<b>(491,001)</b>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 4,279,808</b>

**GRATTAN ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 713,727	\$	\$ 87,970	\$ (625,757)
Support services	710,405		17,952	(692,453)
Community services	4,212	5,146		934
Interest and fees on long-term debt	293,691			(293,691)
Unallocated depreciation	99,685			(99,685)
Total governmental activities	<u>\$ 1,821,720</u>	<u>\$ 5,146</u>	<u>\$ 105,922</u>	<u>(1,710,652)</u>
General revenues:				
State sources				1,439,334
Investment earnings				20,157
Local sources				825
ISD special education allocation				<u>23,092</u>
Total general revenues				<u>1,483,408</u>
<b>CHANGE IN NET ASSETS</b>				(227,244)
<b>NET DEFICIT</b> , beginning of year				<u>(263,757)</u>
<b>NET DEFICIT</b> , end of year				<u>\$ (491,001)</u>

**GRATTAN ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	General fund	Debt service fund	Capital projects fund	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 28,213	\$	\$	\$ 28,213
Investments		387,699	104,648	492,347
Due from other governmental units	294,268			294,268
Due from other funds	43,798			43,798
Prepaid expenditures	15,572			15,572
TOTAL ASSETS	\$ 381,851	\$ 387,699	\$ 104,648	\$ 874,198
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 265,571	\$	\$	\$ 265,571
Accrued salaries and related items	99,132			99,132
Due to other funds			43,798	43,798
Note payable	49,395			49,395
TOTAL LIABILITIES	414,098		43,798	457,896
FUND BALANCES:				
Reserved for debt service	\$ 53,900	\$ 387,699	\$	\$ 441,599
Reserved for capital projects			60,850	60,850
Unreserved, undesignated	(86,147)			(86,147)
TOTAL FUND BALANCES	(32,247)	387,699	60,850	416,302
TOTAL LIABILITIES AND FUND BALANCES	\$ 381,851	\$ 387,699	\$ 104,648	\$ 874,198
Total governmental fund balance				
				\$ 416,302
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is		\$ 3,581,138		
Accumulated depreciation is		(403,301)		
				3,177,837
Unamortized deferred charges - debt issuance costs				271,571
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Obligation under capital lease				(8,947)
Certificates of participation				(3,800,000)
Promissory note				(444,847)
Accrued interest is not included as a liability in government funds, it is recorded when paid				(102,917)
Net deficit of governmental activities				\$ (491,001)

GRATTAN ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	General fund	Debt service fund	Capital projects fund	Total governmental funds
<b>REVENUES:</b>				
Local sources:				
Interest	\$	\$ 15,399	\$ 4,758	\$ 20,157
Other	5,971			5,971
Total local sources	5,971	15,399	4,758	26,128
State sources	1,492,788			1,492,788
Federal sources	52,468			52,468
Incoming transfers	23,092			23,092
Total revenues	1,574,319	15,399	4,758	1,594,476
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	612,017			612,017
Added needs	104,380			104,380
Total instruction	716,397			716,397
Support services:				
Pupil	47,643			47,643
Instructional staff	14,463			14,463
General administration	201,331			201,331
School administration	228,721			228,721
Business	34,229			34,229
Operation and maintenance	158,985			158,985
Central	25,033			25,033
Total support services	710,405			710,405
<b>EXPENDITURES (Concluded):</b>				
Current (Concluded):				
Community service	\$ 4,212	\$	\$	\$ 4,212
Debt service:				
Principal retirement	21,379			21,379
Interest and fiscal charges	34,242	249,750		283,992
Total expenditures	1,486,635	249,750		1,736,385
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	87,684	(234,351)	4,758	(141,909)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	44,492	267,424		311,916
Operating transfers out	(267,424)		(44,492)	(311,916)
Total other financing sources (uses)	(222,932)	267,424	(44,492)	
<b>NET CHANGE IN FUND BALANCES</b>	(135,248)	33,073	(39,734)	(141,909)
<b>FUND BALANCES:</b>				
Beginning of year	103,001	354,626	100,584	558,211
End of year	\$ (32,247)	\$ 387,699	\$ 60,850	\$ 416,302

**GRATTAN ACADEMY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

<b>Net change in fund balances total governmental funds</b>	<b>\$ (141,909)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(99,685)
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Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	102,917
Accrued interest payable, end of the year	(102,917)

Repayments of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).

Amortization on issuance costs	(9,699)
Principal repayment - capital lease	2,670
Principal repayment - promissory note	21,379

<b>Change in net assets of governmental activities</b>	<b>\$ (227,244)</b>
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**GRATTAN ACADEMY**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUND**  
**JUNE 30, 2007**

	<u>Agency fund</u>
<b>ASSETS</b>	
Cash	\$ 4,791
<b>LIABILITIES</b>	
Due to student groups	\$ 229
Due to parent groups	4,562
<b>TOTAL LIABILITIES</b>	<u>\$ 4,791</u>



**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Grattan Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting entity**

Grattan Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2011. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt, restricted net assets and unrestricted net assets.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

**Fiduciary funds** account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

**C. Measurement focus, basis of accounting and basis of presentation**

**Accrual method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**Modified accrual method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement focus, basis of accounting and basis of presentation (Concluded)**

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**State revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other accounting policies**

**1. Cash and equivalents**

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other accounting policies (Continued)**

1. Cash and equivalents (Concluded)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**E. Other accounting policies (Concluded)**

4. Capital assets (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	20 - 50 years
Land improvements	25 years
Furniture and other equipment	5 - 20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Debt premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appointed in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS**

As of June 30, 2007, the Academy had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
First America Treasury Obligations Fund - class D	<u>\$ 492,347</u>	0.0027	AAAm	<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

One day maturity equals 0.0027, one year equals 1.00

The Academy invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2007, the fair value of the Academy's investments is the same as the value of the pool shares.

These investments are restricted under the terms of the certificates of participation debt agreements primarily for debt service, capital projects and maintenance and repair of the related facilities.

**Interest rate risk.** The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2007, the Academy did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.



**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)**

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$31,131 of the Academy's bank balance of \$131,131 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing deposits. Fiduciary fund balances are not included in the above balances. As of June 30, 2007, none of the Fiduciary fund's bank balance of \$4,791 was exposed to custodial credit risk.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

**Foreign currency risk.** The Academy is not authorized to invest in investments which have this type of risk.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 366,500	\$	\$	\$ 366,500
Capital assets, being depreciated:				
Building and improvements	2,765,576			2,765,576
Land improvements	87,000			87,000
Furniture and fixtures	283,624			283,624
Office equipment	78,438			78,438
Depreciable capital assets	3,214,638			3,214,638
Accumulated depreciation:				
Building and improvements	215,358	72,895		288,253
Land improvements	9,570	3,480		13,050
Furniture and fixtures	39,933	14,431		54,364
Office equipment	38,755	8,879		47,634
Total accumulated depreciation	303,616	99,685		403,301
Net depreciable capital assets	2,911,022	(99,685)		2,811,337
Net governmental capital assets	\$ 3,277,522	\$ (99,685)	\$	\$ 3,177,837

Depreciation for the fiscal year ended June 30, 2007 amounted to \$99,685. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - NOTES PAYABLE**

As of June 30, 2007, the Academy has \$49,395 outstanding from a state aid anticipation note dated July 24, 2007. The note, which has an interest rate of 5.25%, matures July 23, 2007. The note is secured by future state school aid payments.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
<u>\$ 41,163</u>	<u>\$ 480,000</u>	<u>\$ 471,768</u>	<u>\$ 49,395</u>

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

	Promissory note	Certificate of participation	Capital lease	Total
Balance, July 1, 2006	\$ 466,226	\$ 3,800,000	\$ 11,618	\$ 4,277,844
Repayments	<u>21,379</u>		<u>2,671</u>	<u>24,050</u>
Balance, June 30, 2007	444,847	3,800,000	8,947	4,253,794
Less current portion	<u>23,038</u>		<u>2,864</u>	<u>25,902</u>
Total due after one year	<u>\$ 421,809</u>	<u>\$ 3,800,000</u>	<u>\$ 6,083</u>	<u>\$ 4,227,892</u>

Interest expense (all funds) for the year ended June 30, 2007 was approximately \$310,000. General fund interest on notes payable is included in support services.

**GRATTAN ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term debt currently outstanding at June 30, 2007 is as follows:

2006 Series full term certificates of participation due in annual principal installments of \$45,000 to \$545,000 through February 1, 2036 plus interest at 6.5%	\$ 3,800,000
Promissory note due in monthly installments of \$4,635 through September 2019, including interest at 7.5%. The loan was issued for the purchase of a school building	<u>444,847</u>
Total certificates and notes payable	4,244,847
Less current portion	<u>(23,038)</u>
	<u><u>\$ 4,221,809</u></u>

The annual requirements to amortize the certificates of participation and notes payable outstanding as of June 30, 2007, including interest of \$9,455,477 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 23,038	\$ 279,582	\$ 302,620
2009	69,827	277,794	347,621
2010	76,754	272,941	349,695
2011	83,831	267,614	351,445
2012	86,070	261,801	347,871
2013-2017	545,498	1,208,730	1,754,228
2018-2022	589,829	1,006,443	1,596,272
2023-2027	650,000	820,950	1,470,950
2028-2032	885,000	581,425	1,466,425
2033-2036	<u>1,235,000</u>	<u>233,350</u>	<u>1,468,350</u>
Total	<u><u>\$ 4,244,847</u></u>	<u><u>\$ 5,210,630</u></u>	<u><u>\$ 9,455,477</u></u>

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

An amount of \$387,699 is available in the debt service fund to service the certificates. The certificates may be paid off early beginning in 2016 at the discretion of the Academy at stated amounts based on the terms of the debt agreement.

Capital lease obligations at June 30, 2007 consist of the following:

A capital lease for equipment with monthly payments totaling \$283 including interest imputed at 7.0% maturing through June 2010	\$ 8,947
Less current portion	<u>(2,864)</u>
	<u><u>\$ 6,083</u></u>

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments are as follows:

Year ending June 30,	Amount
2008	\$ 3,400
2009	3,400
2010	<u>3,117</u>
Total minimum lease payments	9,917
Less: amounts representing interest	<u>(970)</u>
Capital lease obligations	<u><u>\$ 8,947</u></u>

The following is a summary of property held under capital lease as of June 30, 2007:

Equipment	\$ 14,309
Less accumulated depreciation	<u>2,862</u>
	<u><u>\$ 11,447</u></u>

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2007, the capital projects fund owed the general fund \$43,798 for reimbursement of costs of capital expenditures paid for by the general fund.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - TRANSFERS**

Operating transfers between the governmental funds were as follows:

Operating transfers out		Operating transfers in	
General fund	\$ 267,424	Debt service fund	\$ 267,424
Capital projects fund	44,492	General fund	44,492
	<u>\$ 311,916</u>		<u>\$ 311,916</u>

Transfers were made from the general fund to the debt service fund for interest payments on the certificates of participation. Transfers were made from the capital projects fund to the general fund for reimbursement of costs of capital expenditures paid for by the general fund.

**NOTE 9 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$43,000 for oversight fees.

**NOTE 10 - MANAGEMENT AGREEMENT**

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operation of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is up to 12% of the unrestricted state revenue. The management fee was capped at \$145,567 by Choice Schools for 2007.

**NOTE 11 - PURCHASED SERVICES**

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount payable to Choice Schools at June 30, 2007 was approximately \$254,000.

**GRATTAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**GRATTAN ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2007**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 23,000	\$ 5,000	\$ 5,971	\$ 971
State sources	1,603,467	1,492,787	1,492,788	1
Federal sources	31,597	52,373	52,468	95
Incoming transfers	2,400	3,000	23,092	20,092
Total revenues	1,660,464	1,553,160	1,574,319	21,159
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	656,170	607,800	612,017	(4,217)
Added needs	31,366	107,173	104,380	2,793
Total instruction	687,536	714,973	716,397	(1,424)
Support services:				
Pupil	29,500	47,500	47,643	(143)
Instructional staff	62,169	19,230	14,463	4,767
General administration	204,588	199,928	201,331	(1,403)
School administration	223,784	230,764	228,721	2,043
Business	27,000	39,238	34,229	5,009
Operation and maintenance	131,582	168,658	158,985	9,673
Pupil transportation	250			
Central	20,000	25,000	25,033	(33)
Total support services	698,873	730,318	710,405	19,913
<b>EXPENDITURES (Concluded):</b>				
Current:				
Community services	\$ 17,918	\$ 4,500	\$ 4,212	\$ 288
Debt service:				
Principal retirement	20,105	21,000	21,379	(379)
Interest and fiscal charges	36,860	35,000	34,242	758
Total expenditures	1,461,292	1,505,791	1,486,635	19,156
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	199,172	47,369	87,684	40,315
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in		50,000	44,492	(5,508)
Operating transfers out	(248,100)	(295,000)	(267,424)	27,576
Total other financing sources (uses)		(245,000)	(222,932)	22,068
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (48,928)</b>	<b>\$ (197,631)</b>	(135,248)	<b>\$ 62,383</b>
<b>FUND BALANCES:</b>				
Beginning of year			103,001	
End of year			<u>\$ (32,247)</u>	

## **ADDITIONAL INFORMATION**

**GRATTAN ACADEMY  
FULL TERM CERTIFICATE OF PARTICIPATION - SERIES 2006  
YEAR ENDED JUNE 30, 2007**

\$3,800,000 Certificates issued February 17, 2006

Principal due February 1	Interest due		Debt requirement for fiscal year	
	August 1	February 1	June 30,	Amount
\$	\$ 123,500	\$ 123,500	2008	\$ 247,000
45,000	123,500	123,500	2009	292,000
50,000	122,037	122,038	2010	294,075
55,000	120,412	120,413	2011	295,825
55,000	118,625	118,625	2012	292,250
60,000	116,837	116,838	2013	293,675
65,000	114,887	114,888	2014	294,775
70,000	112,775	112,775	2015	295,550
75,000	110,500	110,500	2016	296,000
80,000	108,062	108,063	2017	296,125
85,000	105,462	105,463	2018	295,925
90,000	102,700	102,700	2019	295,400
95,000	99,775	99,775	2020	294,550
100,000	96,687	96,688	2021	293,375
105,000	93,437	93,438	2022	291,875
115,000	90,025	90,025	2023	295,050
120,000	86,287	86,288	2024	292,575
130,000	82,387	82,388	2025	294,775
140,000	78,162	78,163	2026	296,325
145,000	73,612	73,613	2027	292,225
155,000	68,900	68,900	2028	292,800
165,000	63,862	63,863	2029	292,725
175,000	58,500	58,500	2030	292,000
190,000	52,812	52,813	2031	295,625
200,000	46,637	46,638	2032	293,275
215,000	40,137	40,138	2033	295,275
230,000	33,150	33,150	2034	296,300
245,000	25,675	25,675	2035	296,350
545,000	17,712	17,713	2036	580,425
<u>\$ 3,800,000</u>	<u>\$ 2,487,054</u>	<u>\$ 2,487,071</u>		<u>\$ 8,774,125</u>

The above certificates bear an interest rate of 6.5%. The certificate proceeds were used to pay off a land contract and other long-term debt related to the purchase of the building, land and improvement thereto.

**GRATTAN ACADEMY  
PROMISSORY NOTE PAYABLE  
YEAR ENDED JUNE 30, 2007**

\$500,000 promissory note issued August 26, 2004

Principal due the first of each month	Interest due the first of each month	Debt requirement for fiscal year	
		June 30,	Amount
\$ 23,038	\$ 32,582	2008	\$ 55,620
24,827	30,794	2009	55,621
26,754	28,866	2010	55,620
28,831	26,789	2011	55,620
31,070	24,551	2012	55,621
33,482	22,139	2013	55,621
36,081	19,540	2014	55,621
38,882	16,739	2015	55,621
41,900	13,720	2016	55,620
45,153	10,467	2017	55,620
48,659	6,962	2018	55,621
52,436	3,185	2019	55,621
13,734	171	2020	13,905
<u>\$ 444,847</u>	<u>\$ 236,505</u>		<u>\$ 681,352</u>

The above promissory note bears an interest rate of 7.5%. The note proceeds were used for the acquisition of real property.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Grattan Academy  
Belding, Michigan

October 25, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grattan Academy as of and for the year ended June 30, 2007, which collectively comprise Grattan Academy's basic financial statements and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Grattan Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

To the Board of Directors  
Grattan Academy  
Belding, Michigan

October 25, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Grattan Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Grattan Academy in a separate letter dated October 25, 2007.

This report is intended solely for the information and use of the Board of Directors, management and others within the Academy, U.S. Department of Education and the Michigan Department of Education and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Maner, Costerisan + Ellis, P.C.*

Certified Public Accountants



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

October 25, 2007

To the Board of Directors  
Grattan Academy  
Belding, Michigan

In planning and performing our audit of the financial statements of Grattan Academy as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Grattan Academy 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 25, 2007 on the financial statements of Grattan Academy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

### **Fund Balance Deficit**

At the end of the 2007 school year, the Academy has a deficit fund balance in the general fund. The Academy should prepare a deficit elimination plan and develop an overall plan on correcting the deficit fund balance. Also, the Academy should contact the Michigan Department of Education to ensure it follows all of the necessary procedures in filing their deficit elimination plan.

### **New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's**

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15<sup>th</sup> day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),



- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

### **New Auditing Standards**

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

### **New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees**

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

To the Board of Directors  
Grattan Academy  
Belding, Michigan

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October 25, 2007

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

This report is intended solely for the information and use of Grattan Academy, management and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*



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October 25, 2007

To the Board of Directors  
Grattan Academy  
Belding, Michigan

We have audited the financial statements of Grattan Academy for the year ended June 30, 2007, and have issued our report thereon dated October 25, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Grattan Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Grattan Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Grattan Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Grattan Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors, and management of Grattan Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maner, Costerisan + Ellis, P.C.*